Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

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ACTION AID-59

INFO OCT-01 NEA-14 ISO-00 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 IGA-02 L-03 H-03 DRC-01

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R 161140Z AUG 74
FM AMEMBASSY KATHMANDU
TO SECSTATE WASHDC 9219

C O N F I D E N T I A L SECTION 1 OF 2 KATHMANDU 3380

FOR WHITE, ASSISTANT ADMINISTRATOR ASIA BUREAU, AND LAINGEN

E.O. 11652: GDS
TAGS: EAID, NP , US
SUBJECT: SURKHET ROAD

REF: KATHMANDU 3371

1. FOLLOWING RECEIPT REFTEL LETTER INFORMING US GON WOULD UNDER-TAKE SURKHET ROAD WITHOUT US ASSISTANCE, EMBOFF HAD DISCUSSION WITH GON MINISTER OF STATE FOR FINANCE, BHEKH THAPA, AND MINISTRY OF FINANCE JOINT SECRETARY, DEVENDRA RAJ PANDE. THEY WERE NOT HAPPY WITH THEIR DECISION TO UNDERTAKE SURKHET ROAD ON THEIR OWN BUT FELT IT WAS DECISION THEY HAD TO TAKE BASED ON FOLLOWING CHAIN OF EVENTS.

2. FOLLOWING ORIGINAL PROPOSAL FOR GRANT FINANCING OF WESTERN HILLS ROAD AND PACKAGE OF DOLLAR LOAN -- RUPEE GRANT FOR SURKHET ROAD, MINISTRY OF FINANCE WAS PRESSED BY USAID TO PROVIDE FORMAL STATEMENTS THAT GON WOULD ACCEPT PACKAGE AND TERMS OF LOAN. DESPITE SOME RESERVATIONS WITH REGARD TO TERMS OF LOAN, GON CLEARANCES OBTAINED AND FORMALLY NOTED IN PANDE/IDE LETTERS OF MARCH 12 AND MAY 5. GON POSITION AND WILLINGNESS ACCEPT LOAN BASED ON THEIR UNDERSTANDING THAT USAID INTENDED TO FINANCE
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75 PERCENT OF SURKHET ROAD COSTS. IDE/PANDE LETTER OF APRIL 23,

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TAKING INTO ACCOUNT INCREASED COST ESTIMATES OF HWS AND FOLLOWING GUIDELINES CONTAINED STATE 074271, CONFIRMED TO THEM THIS UNDERSTANDING BY STATING THAT "IN ORDER BRING CONTRIBUTION UP TO 75 PERCENT, WHICH IS MAXIMUM WE CAN FINANCE UNDER EXISTING US LEGISLATION, WE PROPOSE TO GRANT HMG APPROXIMATELY 5.48 MILLION EQUIVALENT IC." IN ADDITION TO INCREASING US CONTRIBUTION FROM 3.4 MILLION TO 5.48 MILLION, LETTER WAS VIEWED BY GON AS EVIDENCE OF OUR INTENTION TO ABIDE BY UNDERSTANDING THAT WE WOULD FINANCE 75 PERCENTOF COSTS OF SURKHET ROAD, INCLUDING OUR SHARE OF INCREASING COSTS, AS NEW FIGURE OF 5.48 MILLION WAS CLEARLY DERIVED FROM INCREASE IN ESTIMATED COST OF SURKHET ROAD FROM 14.2 MILLION TO 17.1 MILLION.

3. GON OFFICIALS CONTINUED OPERATING UNDER ABOVE ASSUMPTION UNTIL MID-JUNE WHEN USAID FOR FIRST TIME PRESENTED TO GON NEW RUPEE PROGRAMMING PROPOSALS, WHICH INCLUDED ONLY $3.4 MILLION FOR SURKHET ROAD. AS REPORTED IN KATHMANDU 2445, JOINT SECRETARY PANDE EXPRESSED DISMAY THAT USAID OFFERING EVEN LESS THAN BEFORE DESPITE GREATER NEED DUE TO INCREASING COSTS AND ASKED REASON FOR REDUCTION FROM 5.48 MILLION TO 3.4 MILLION. PANDE SAID IT HAD BEEN GON'S UNDERSTANDING THAT USAID WOULD ADD NECESSARY RUPEE GRANT TO BRING TOTAL CONTRIBUTION UP TO 75 PERCENT. FOLLOWING THIS MEETING, GON QUICKLY RESPONDED ON JUNE 24 WITH COUNTERPROPOSAL THAT USAID INCREASE ITS RUPEE CONTRIBUTION FOR SURKHET TO 6.1 MILLION IC EQUIVALENT. MINISTER OF FINANCE ON JUNE 8 REITERATED ORALLY SAME PROPOSAL TO AID DIRECTOR IDE, EXPLAINING GON PROPOSAL BASED ON PREVIOUS OFT-STATED USAID POSITION THAT IT WOULD COVER 75 PERCENT OF SURKHET COSTS. HOWEVER, IN ASKING FOR 6.1 MILLION, GON WAS IN EFFECT ASKING USAID TO COVER ONLY 70 PERCENT OF SURKHET COSTS BASED ON $19 MILLION TOTAL. MINISTRY FINANCE OFFICIALS HAVE INDICATED TO EMBASSY THAT THEY EXPECTED FAVORABLE RESPONSE FROM USAID. INSTEAD THEY RECEIVED JULY 23 LETTER STATING 3.4 MILLION IC EQUIVALENT WAS BEST WE COULD DO AND WAS DEFINITIVE POSITION.

4. PANDE HAS TOLD EMBASSY THAT HE HOPED THAT GON AND USAID COULD CONTINUE DISCUSSIONS ON SURKHET BUT INTERPRETED JULY 23 LETTER TO PRECLUDE ANY FURTHER DISCUSSIONS. AT THIS POINT, SAY MINISTRY OF FINANCE OFFICIALS, THEY BELIEVE THEY HAD NO ALTERNATIVE BUT TO CALL IT QUITS.
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5. WE HAVE TRIED PERSUADE GON OF RATIONALITY OF OUR POSITION THAT OUR CONTRIBUTION TO SURKHET SHOULD END AT 3.4 MILLION IC. WE HAVE GIVEN THIS POSITION STRONG SUPPORT AS INDICATED BY SUBSTANCE OF CONVERSATIONS REPORTED PREVIOUSLY AND OUR DELIVERY JULY 23 LETTER. UNFORTUNATELY, IT WON'T WASH; AND IF WE LET IT GO WHERE IT NOW STANDS ON THE BASIS OF REFTEL GON LETTER, THE RESIDUE OF ILL FEELING ON THE PART OF GON OFFICIALS WILL, IN OUR VIEW,

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BE SUBSTANTIAL. IT IS OBVIOUS FROM OUR CONVERSATIONS AND FROM
CONTENT AND TONE AUGUST 14 LETTER (REFTEL) THAT GON CONSIDERS
THAT THE US HAS BACKED OUT OF PREVIOUS COMMITMENT. THE RECORD
IS AS WE HAVE OUTLINED IT ABOVE. IT SHOWS THAT WE HAD ASSURED
GON OF OUR INTENTION TO COVER 75 PERCENT OF COSTS OF SURKHET ROAD
AND IN APRIL 23 IDE/PANDE LETTER WE SPECIFIED QUANTITY OF 5.48
MILLION IC EQUIVALENT AS THE LEVEL WE PROPOSED TO GRANT AND
INDIRECTLY DOCUMENTED OUR WILLINGNESS COMPLY WITH UNDERSTANDING
WE WOULD MAINTAIN OUR POSITION AT 75 PERCENT BY INCREASING OUR
CONTRIBUTION BASED ON INCREASED COSTS OF ROAD. IF WE NOW REACT
TO GON'S AUGUST 14 LETTER BY LETTING IT RIDE AND DROPPING OUT
OF SURKHET ROAD ON THIS BASIS, WE BELIEVE WE RISK PREJUDICE TO
OUR GOOD RELATIONS WITH GON, SINCE HIS MAJESTY PLACES HIGH PRIORITY
ON SURKHET ROAD AND PERSONALLY DECIDED TO REQUEST USG TO FINANCE IT.
UNDER SUCH CIRCUMSTANCES, MISSION STRONGLY BELIEVES THAT WE SHOULD
MAKE GOOD ON WHAT GON UNDERSTANDS TO BE OUR PREVIOUS COMMITMENT.

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ACTION AID-59

INFO OCT-01 NEA-14 ISO-00 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 IGA-02 L-03 H-03 DRC-01

/142 W
---------- 101299
R 161140Z AUG 74
FM AMEMBASSY KATHMANDU
TO SECSTATE WASHDC 9220

C O N F I D E N T I A L SECTION 2 OF 2 KATHMANDU 3380

6. THERE IS, HOWEVER, PROBLEM AT THIS POINT IN DEFINING
OUR COMMITMENT. IN GON VIEW, WE MADE COMMITMENT TO FINANCE
75 PERCENT OF SURKHET ROAD COSTS. BASED ON ESTIMATED COST OF
19 MILLION, THIS WOULD IMPLY US CONTRIBUTION OF 6.9 MILLION.
GON HAS, HOWEVER, ASKED FOR 6.1 MILLION, EQUIVALENT TO 70 PERCENT
(SEE GON MEMORANDUM OF JUNE 24), WHICH WE RECOGNIZE IS BASED
ON AVAILABILITY $2.7 MILLION EQUIVALENT OF AS YET UNALLOCATED
RUPEES. WE BELIEVE, HOWEVER, THAT WE CAN MAKE GOOD CASE THAT OUR

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COMMITMENT SHOULD END AT 5.48 MILLION, THE FIGURE SPECIFIED IN
IDE/PANDE LETTER AS GON ITSELF HAS ATTACHED SO MUCH IMPORTANCE
TO THIS LETTER.

7. WE WISH EMPHASIZE, HOWEVER, THAT WE CANNOT BE SURE THAT GON
WOULD BE WILLING CONTINUE SURKHET PROJECT EVEN IF WE NOW INDICATED
OUR WILLINGNESS TO CONTRIBUTION 5.48 MILLION IC EQUIVALENT,
AS GON ATTACHES IMPORTANCE TO STILL HIGHER PERCENTAGE PARTICIPATION
BY US. IT MAY BE THAT GON NOW VIEWS 6.1 MILLION IC CONTRIBUTION
AS COMPROMISE ON THEIR PART AND MINIMUM ACCEPTABLE. HOWEVER,
EVEN IF WE CANNOT BE SURE OF AGREEMENT ON PART OF GON, MISSION
STRONGLY BELIEVES THAT WE MUST MAKE OFFER OF 5.48 MILLION IN
ORDER TO COUNTER GON CONVICTION THAT WE HAVE WALKED OUT ON
PREVIOUS COMMITMENT AND TO REDUCE POSSIBILITIES OF SERIOUS
MISUNDERSTANDINGS ON PART OF GON, INCLUDING KING HIMSELF,
THAT WOULD IMPINGE ON OUR GOOD RELATIONS WITH NEPAL.
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8. ONE POSSIBILITY WASHINGTON MAY WISH EXPLORE IN ORDER
INCREASE US CONTRIBUTION IS AVAILABILITY OF ADDITIONAL RUPEES
UNDER MAINTENANCE OF VALUE CLAUSE CONTAINED PARA 10A, PART II
OF US/INDIA RUPEE AGREEMENT.

9. PLEASE PASS CONTENTS THIS MESSAGE TO GRADER.
CARGO

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Message Attributes

Automatic Decaptioning: X
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Control Number: n/a
Copy: SINGLE
Draft Date: 16 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Executive Order: GS
Errors: N/A
Film Number: D740227-0387
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Review Exemptions: n/a
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